

# Directors Remuneration and Firm Performance in Property and Construction Industries Listed on Bursa Malaysia's Main Board

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## ABSTRACT

*Nowadays, directors' remuneration has become increasingly popular and being discussed by all walks of life. Through a holistic approach based on corporate governance best practice, it could affect the internal and external performance of corporate in terms of management and financial performance. The main objective of the study is to investigate the directors' remuneration listed under property and construction industry towards firm performance. 266 samples of annual reports of listed firms for the period of 2013 to 2015 were obtained and examined. The regression results show that directors' remunerations have significantly positive relationship with firm performance. Appealing remuneration package encourages and attracts the directors who have the ability and potential in successfully managing the firm. Most of control variables have significant relationship with firm financial performance except CEO duality which does not have significant relationship with financial performance. Future studies could recommend using other performance measures such as Tobin Q or Economic Value Added (EVA) and the total directors' remuneration could be broken up to several parts which could reveal new research insights.*

## 1.0 INTRODUCTION

Directors' remuneration is closely linked to the corporate governance issue in Malaysia. This helps to focus the reality of the agency problem that could happen and resulted in growing interest especially research in the field of corporate governance and firm performance. As a consequence, according to Denis and McConell (2003), the relation between various aspects of corporate governance such as directors' remuneration, board composition and corporate governance mechanism have been widely studied. Consideration has been given to the influence of compensation packages on corporate performance, corporate governance effectiveness and board monitoring.

In Malaysia, in 2000, the Malaysia Code of Corporate Governance (MCCG) was introduced and improved in 2007 which established the regulations for best practices of corporate governance in listed companies. An improved insight of the code provides for better achievement for publicly listed companies with respect to the previous Asian financial crisis on 1997 to 1998. Therefore, according to the study by Jaafar et al. (2014), the corporate governance's components, such are remuneration, composition of board of directors and

audit committee have brought attention to a few scholars (Christopher, Hassan, & Street, 2005; Durisin & Puzone, 2009; Filatotchev, 2009). Based on Demb and Neubauer (1992), they have explained the corporate governance framework as accountable for performance of firm. Its components need to be integrated and matched with firms' strategies in order to enhance performance. For example, the components of board composition, board structure and board size (Jensen, 1993) and meetings must be inspected and effectiveness established during implementation. Correspondingly, the structure of remuneration which involves a remuneration committee (Salim & Wan-Hussin, 2009) and level of remuneration (Abdul Wahab & Abdul Rahman 2009) should not be seen as individual components but as a whole package. Thus, it can positively improve the practice of governance which eventually will stimulate a better corporate performance by using that holistic approach. For example, a study was investigated by Abdullah in 2006 about directors' remuneration, firm's performance and corporate governance among be companies in Malaysia.

In order to retain and attract executives, remunerations are given and it has to be referred to as an expertise and responsibility of boards. In addition, remuneration must be in lined with the strategy of business and the firm's long run objectives. The remuneration level must be increased or maintained; which boosts motivation of the executives and assure the firm's survival. Nevertheless, these procedures and policies of remuneration are difficult to establish if a crisis affects the firm. Directors may be less motivated if their remuneration is cut off. A board of directors' remuneration or a remuneration committee also plays a significant role in ensuring that the motivation of executives is maintain and in achieving better performance.

## 1.2 Problem Statement

Directors remuneration issue has drawn attention from public media, academic field as well as to the policy makers. The shareholders start to question if, and consequently how the director remuneration packages can be reasonable. Thus, firms are needed to be more transparent in their remuneration figures and policies. According to Berta (2007), the improved transparency contributed to the provision of the details and disclosure of the remuneration amounts and the relative weight of different remuneration components such as salaries, bonuses and benefit in kind.

Based on the study conducted by Bebchuk and Fried (2003), it is impossible if all of the shareholders are involved in the process of management. Directors will be assigned by the shareholders to perform upon their behalf where a relationship of principal-agent is formed, which later may lead to an agency problem if conflict happens between directors and shareholders especially in decision making. In the research of Jensen and Meckling (1976) it is reported that, problem of agency occurs due to the directors taking the benefit, where high salaries are rewarded to themselves and hence this could reduce profits that are available for distribution to the shareholders in a form of remuneration package. This case happens when the directors are in the highest and strategic position in the firm's organization structure, where their directors' position influence their pay as studied by Bratton (2005).

The regulation of directors' remuneration case arises due to the well-known market failure at the center of corporate governance regime. Precisely, a shaky corporate governance (CG) mechanism failed to provide and cultivate sound business practices. As in Malaysia, the